The Meridian Memo

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SECURE Act: Opportunities & Challenges

Dear Meridian Clients:

As tempting as it is to recount the 30.4% rise in the S&P 500 in 2019 and see what the Leading Economic Indictors tell us about 2020, at the end of December 2019, the Senate and House voted to approve the SECURE Act and that requires our attention. The legislation delivered massive, plan altering changes to the Tax Code at the 11th hour. Here is some of what you should know.

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The Stretch IRA Is Eliminated for Most Non-Spouse Beneficiaries

The most significant change made by the SECURE Act for many is the elimination of the 'Stretch' provisions for most non-spouse beneficiaries of defined contribution plans and IRA accounts.

For those who passed away (by the end of 2019), their designated beneficiaries (generally, living human beings, and certain qualifying trusts) are eligible to stretch distributions over their life expectancy (or in the case of a qualifying trust, over the oldest applicable trust beneficiary's life expectancy).

However, for most designated beneficiaries who inherit in 2020 (i.e., where the retirement account owner themselves dies in 2020 and beyond), the new standard under the SECURE Act will be the '10-Year Rule.'

In the second half of the 2019, Meridian began hosting educational workshops. We invited people to come and learn about Social Security planning for baby boomers and to enjoy a dinner and wine. We hosted 2 in August and 2 in October.

Our next workshops will be held in March and this time they will focus on IRA planning for baby boomers. It turns out, the subject is more complex and requires more consideration than a lot of people realize. IRA planning needs to be part of someone's investment, tax, estate, asset protection and income plan. We want attendees to come away with a high-level understanding of these topics.

Under this 10-Year Rule, the entire inherited retirement account must be emptied by the end of the 10th year following the year of inheritance. Similar to the existing 5-year rule for non-designated beneficiaries, though, within the 10-year period, there are no distribution requirements. Thus, designated beneficiaries will have some flexibility when it comes to timing distributions from the inherited account(s) for maximum tax efficiency… as long as the entire account balance has been taken by the end of the 10th year after death.

New Planning Challenges For Trusts Named As Retirement Account Beneficiaries

It is always good practice for all beneficiary designations of retirement accounts to be periodically reviewed to see if they are still in line with, and best serve, the account owner's wishes. However, the changes introduced by the SECURE Act will make it even more necessary to review any situations where trusts are named as retirement account beneficiaries.

In general, trusts created to serve as the beneficiary of a retirement account are drafted in such a manner as to comply with the "See-Through Trust" rules, which allow the trust to stretch distributions over the oldest applicable trust beneficiary. Broadly speaking, there are two types of such trusts; Conduit Trusts and Discretionary Trusts. Both types of trust *could* be unfavorably impacted by the SECURE Act.

Required Minimum Distributions (RMDs) To Begin At 72

Another big headline from the SECURE Act (Section 114) is a shift to push back the onset of RMDs from age 70 ½ to age 72. It's not a *huge* change, but any RMD relief is welcome news for those who don't want them and will only take them because they are forced to do so.

As an added benefit, people understand the concept of turning 72 a lot more than they do turning 70… and ½ (and figuring out their first RMD age factor, which in turn varied depending on whether their birthday was in the first or last 6 months of the year, due to the ½ year age trigger). Therefore, explaining when RMDs need to begin, and the calculation of the first RMD, *should* become at least a *little* bit easier in the future.

TIPS if You're Retiring in 2020 (per WSJ)

- ✓ Another meltdown is coming, be prepared, revisit your risk tolerance & investment positioning.
- ✓ Greed is not good: aim for a fulfilling life and reducing chances of dying broke rather than chasing every last dollar.
- ✓ Stamina matters: emotional discipline is paramount.
- ✓ Fiduciaries matter: choosing professionals with fewer conflicts of interest is a way to reduce your risk.

"I reviewed your investments and set you up for early retirement. On your last day of work, you can afford to leave at 4:30 instead of 5:00."